June 29, 2007

John Stevenson, Secretary
Ontario Securities Commission
20 Queen Street West
Suite 1900, Box 55
Toronto, Ontario M5H 3S8

Dear Mr. Stevenson,

Re: Proposed Amendments to Executive Compensation Disclosure

On behalf of Watson Wyatt Worldwide, I wish to thank you for providing us with the opportunity to make a submission with respect to the Notice and Request for Comments on the Proposed Repeal and Substitution of Form 51-102F6 Statement of Executive Compensation, Proposed Amendments to NI 51-102 Continuous Disclosure Obligations, Forms 51-102F2 and 51-102F5 and Proposed Consequential Amendments to MI 52-110 Audit Committees and NI 58-101 Disclosure of Corporate Governance Practices.

Watson Wyatt Worldwide consults to public and private sector organizations in the areas of employee benefits, human resources technologies, and human capital management. In Canada, we serve clients from coast to coast through locations in Toronto, Montreal, Vancouver and Calgary.

We commend the CSA for proposing amendments that represent a vast improvement over the current rules toward achieving more complete and transparent disclosure. We provide our comments in the spirit of fully supporting the CSA goal of creating far greater transparency and we are largely in support of the methods by which the CSA seeks to accomplish this goal. Our recommendations, detailed in the attached submission, are intended to enhance corporate stakeholders' understanding of and perspective on compensation amounts realized by executives in relation to both compensation opportunities provided and company performance.

Our comments emanate from our own reflection on the new requirements, our experience in helping U.S. issuers prepare their disclosure under the new SEC rules and feedback received from our Canadian clients at a discussion forum we organized in May.

We believe our recommendations are entirely consistent with the CSA's dual desires that all elements of compensation be disclosed and that the reasons for payments be clearly enunciated in the Compensation Discussion and Analysis. We are hopeful the CSA will strongly consider our recommended enhancements.

Watson Wyatt Canada ULC

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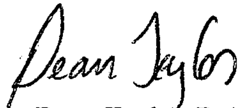
Watson Wyatt gratefully acknowledges the contribution and analysis provided by Christian Laniel in the preparation of this submission.

Should you have any questions regarding our submission, or any other matter, please feel free to contact the undersigned at 416-813-4441 or dean.l.taylor@watsonwyatt.com. You may also wish to contact Robert Levasseur, Senior Consultant, Executive Compensation, at 416-813-4427 or robert.levasseur@watsonwyatt.com.

Yours Truly,



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Research Lawyer
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Encl.

Watson Wyatt Worldwide Submission on Notice and Request for Comments on the Proposed Repeal and Substitution of Form 51-102F6 Statement of Executive Compensation, Proposed Amendments to NI 51-102 Continuous Disclosure Obligations, Forms 51-102F2 and 51-102F5 and Proposed Consequential Amendments to MI 52-110 Audit Committees and NI 58-101 Disclosure of Corporate Governance Practices

Introduction

Watson Wyatt commends the CSA for proposing amendments that represent a vast improvement over the current rules toward achieving more complete and transparent disclosure. Our comments are provided in the spirit of fully supporting the CSA goal of creating far greater transparency and we are largely in support of the methods by which the CSA seeks to accomplish this goal. Our recommendations, detailed below, are intended to enhance corporate stakeholders' understanding of and perspective on compensation amounts realized by executives in relation to both compensation opportunities provided and company performance.

The CSA has raised a number of specific questions for consideration. We have integrated most of our comment in responses to those questions, with additional considerations noted where applicable.

1. General Provisions

1. Will the proposed executive compensation form clearly capture all forms of compensation? Have we achieved our objective in drafting a document that will capture disclosure of compensation practices as they change over time?

Watson Wyatt believes all forms compensation are appropriately captured by the proposed disclosure, and we praise the CSA for maintaining requirements that are not prescriptive and likely to adapt well to future compensation strategies. We think it will be important for the CSA to continue to track changes in this area and continue to be receptive to comments from issuers, investors and the media.

2. Do you agree with our proposal not to substantially change the criteria for determining the top five named executive officers? Should it be based on total compensation or some other measure, such as those with the greatest policy influence or decision-making power at the organization?

Watson Wyatt believes that the use of Total Compensation is appropriate in determining the Named Executive Officers (NEOs), though we do not feel that using Total Compensation will notably change the demographics of the NEOs compared to the prior requirements in most cases.

We are concerned, however, that certain compensation elements (or the methodology used to calculate them) will create volatility in the determination of NEOs. We feel that the current approach could cause otherwise innocuous events to change the demographics of those included in the disclosure and will result in large variations in the NEOs group from year to year, and may, as such, fail to capture the most senior positions in an organization. For example, we are concerned by the following elements:

- It is often the case that equity award values are artificially higher for Executives in the year they become eligible to retire because of the immediate expensing of grants under accounting standards in these situations (if vesting is continued after retirement);
- Companies that grant equity only upon hire (or that provide a larger hire grant);
- Circumstances where special retention grants are made to specific individuals;
- Situations where large payouts are made from a long-term non-equity incentive plan which was not available to newly hired executives; and
- Executive with large deferred compensation values or defined contribution pension plan balances.

Also, some elements in the All Other Compensation column may not be easily determinable at the moment the proxy is first drafted and may cause delays in the determination of the NEOs, for example tax gross-ups or equalization payments, value of certain perks or earnings from defined contributions plans.

We do not believe that using the criterion of "those with the greatest policy influence or decision-making power" is appropriate, as most of our clients would have difficulty in applying this judgement. Having a measurable criterion is also important for the shareholders to be provided with unequivocal and non-arbitrary information.

For determining NEOs, we recommend using only salary, bonus, annual incentive and equity awards value. For determining equity award values, we recommend ignoring the accounting obligation to expense the full grant when an employee becomes eligible to retire and provide the flexibility to ignore special grants made in certain circumstances.

3. *Should information be provide for up to five people individually, or should the information be provided separately for the CEO and CFO, then on an aggregate basis of the remaining three named executive officers.*

We believe individual disclosure is more adequate for transparency, especially in the case where companies have multiple leadership roles (for example: Chairman and CEO, President and COO). Aggregating the information would be confusing.

2. Compensation discussion and analysis (CD&A)

4. *Will the proposed CD&A requirements elicit a meaningful discussion of a company's compensation policies and decisions?*

While most of our clients already provide meaningful discussion on compensation policy and decision, we have seen instances where improvement is needed. We think that the CD&A requirements will help in these cases, as long as regulators proactively track the compliance with the rules. Experience in the U.S. shows that guidance from the regulator is required in establishing a meaningful CD&A. While the SEC is disappointed with most CD&As after one year of filing, the U.S. regulator has not managed to articulate its expectations. We recommend implementing a tracking, grading and reporting mechanism for compliance.

5. Should we require companies to provide specific information on performance targets?

Many of our clients have expressed discomfort in disclosing details of their performance targets, mostly because they feel it would put them at a competitive disadvantage and that some of the targets may prove difficult for investors to comprehend. For example, targets may not be consistent, for strategic reasons, from budget or prior year results or may differ from the guidance provided over the year to shareholders.

We believe that placing too great an emphasis on the requirements in this area could result in Boards and companies making less appropriate decisions to satisfy external perceptions while not optimizing long-term value creation. For example, this requirement may indirectly result in companies moving from shareholder-friendly performance based awards to non-performance-based awards. We recommend requiring companies to disclose in general terms how targets are set and the level performance achieved compared to the targets set.

6. Will moving the performance graph to the CD&A and requiring an analysis of the link between the performance of the company's stock and executive compensation provide meaningful disclosure?

Watson Wyatt favours pay-for-performance analysis. We have been mandated by a number of clients to help them demonstrate the link between compensation and performance. We are concerned that the proposed requirements are too explicitly formulated which may unintentionally be perceived as an endorsement of methodology or of compensation vehicles by the regulators.

By requiring such analysis with the performance graph, the requirements implicitly endorse total shareholder return as the best available measure of performance, and we believe companies will neglect other pertinent measures in their analysis. We think that relying solely on stock performance is inadequate and our analysis generally includes other measures of performance as deemed appropriate in regards to the industry and other considerations.

The CSA may be perceived as endorsing forms of compensation that have the strongest link with stock performance, which will likely have an undesirable consequence on the selection of compensation vehicles. It is very possible that overemphasis placed by the media on the link between compensation and stock performance will drive many companies revert back to unilateral stock option grants.

Finally, the requirements could be read as forcing the comparison of stock performance to pay opportunity (i.e. what was granted), which is the focus of the Summary Compensation Table. According to our research, there is no direct link between stock performance and executive compensation opportunity. We believe that this empirical evidence is consistent with sound compensation management. Pay-for-performance analysis is only meaningful when comparing realized stock performance to realized pay (i.e. what was actually earned over time by the executive).

We believe pay-for-performance analysis should be a requirement of the CD&A where companies should demonstrate that the link between pay and compensation existed in the past, and that current compensation warrants that it will continue to exist in the future under all possible scenarios.

3. Summary Compensation Table

7. *Should the summary compensation table continue to require companies to disclose compensation for each of the company's last three fiscal years, or is a shorter period sufficient?*

We believe that disclosing compensation for the last three years is adequate and permits investors to quickly understand the impact of compensation decisions. A shorter period would render those comparisons more difficult, as compensation and employment decisions are often taken during the year.

8. *Do you agree with the way bonuses and non-equity incentive plans will be disclosed in the summary compensation table?*

Watson Wyatt believes that the proposed methodology is artificial and will be confusing to investors who will not be able to truly assess the annual compensation to executives or compare its appropriateness to that of other organizations because of the combination of annual and multi-year plan payouts within the same column.

We do not believe that the split between formulaic and discretionary plans provide additional meaningful information to investors and we believe that the most natural split is between annual and multi-year plans, corresponding to compensation specialists' and boards' generally accepted methodologies. In our experience with U.S. disclosure, the separation of bonus and non-equity awards is confusing to issuers. It is often difficult to determine under which category the annual incentive plan fits. There are even instances where the payout from the annual incentive plan is split between the two columns.

We suggest separate columns for reporting annual incentive payouts and non-annual non-equity incentive plans. This will permit investors to better assess the value provided in a year, and separate payouts which are not linked to the prior year.

9. *Do you agree with the proposed disclosure of equity and non-equity awards? Are the distinctions between the types of awards and how they will be presented clearly explained?*

We think that the proposed rules improve the disclosure of equity awards over the previous regulations and that the distinction between the types of awards seems clear.

The regulations should clarify what is meant by "amounts earned" to be included in column (g) of the Summary Compensation Table. We assume that this would only include amounts which are irrevocably earned by the participant and that have no risk of forfeiture whatsoever. In our experience, it is rare that a cash-based, non-annual incentive plan will actually provide a vested right to payment for an executive until the completion of the multi-year period. Most plans have payout conditional upon the continued tenure by executive. We understand that in such situations, the amount will only be disclosed upon actual payout. We are concerned that under 3.1 5 the proposed disclosure may be construed to require interim reporting of amounts earned (in an accounting sense), where such amounts might never get paid. This could cause negative compensation to be reported in following years. We do concur, however, that interim year accruals should be reported to the extent they become non-forfeitable or otherwise vested, rather than during the year in which accrued. Finally, we recommend replacing the word "earned" with "unconditionally earned" in item 3.1 5.

10. *Is it appropriate to present stock and option awards based on the compensation cost of the awards over the service period? If no, how should these awards be valued?*

We believe that showing the present value of awards provides investors with a better sense of the compensation provided than the previous regulations. Most Boards make award decisions based on value at grant and compare this value to that provided by other companies in their peer group.

We think that using the accounting expense methodology, while not perfect, is an adequate methodology that ensures consistency between financial reporting and executive compensation disclosure. We feel it is adequate for Restricted Stock Units to be treated with other stock awards under the proposed requirements.

We are concerned that the value disclosed will generally reflect multiple awards granted in the past (based on the vesting schedule). There are a number of situations where the accounting methodology will provide erratic values, which will add complexity to the reader and will be detrimental to the transparency of the disclosure. For example, in the case of newly hired executive, a smaller value will be shown (because only a portion of the current grant is shown, with no previous grant). Also, when companies provide special grants (so called "mega-grants" or "hire grants"), those grants will affect compensation for a number of years.

We are also concerned by the fact that, when an executive reaches retirement age, the accounting rules produce values that may be significantly greater, for no other reason than the executive becomes eligible to continued vesting after retirement. This situation may be appropriate for aggregate expense tracking, but we believe that it creates artificial distortions in the reported compensation and affect comparability within the organization and to other organizations.

We also recommend including only the current year grant's fair value in the Summary Compensation Table (which makes the Grants of Equity Award table redundant).

11. *Should the change in the actuarial value of defined benefit pension plans be attributed to executives as part of the summary compensation table?*

Yes. We also agree that, because of the distortions it would create, it be excluded when determining the NEOs. However we think that such amount should be net of the contribution made by the executive. We proposed the reporting of the change in the actuarial value, net of the executives' contributions.

We question the different treatment between defined benefit plan and defined contribution plans in the Summary Compensation Table. We feel that the value under any retirement plan should be reported under column (h). In addition, we suggest reporting the company contributions to a defined contribution plan in column (h) instead of column (i).

12. *Should we include the service cost to the company in the summary compensation table instead of the change in actuarial value or in addition to it?*

We think that both values should be disclosed as both provide valuable information. However, we think that the use of the change in actuarial value is more appropriate in the Summary Compensation Table, as it corresponds to the overall provision for the executive, and that using the change in liability is similar to the treatment of defined contribution plans.

Watson Wyatt believes that the service cost should be disclosed as well (in the retirement plan section) because it provides valuable information as to the design of the plan, which permits investors to clearly understand the value that can be expected from the plan, under normal circumstances.

We recommend disclosing the service cost in the Retirement Plan Benefits section

13. *Have we retained the appropriate threshold for perquisite disclosure given the changes to compensation amounts included in the bonus column of the summary compensation table?*

We believe that thresholds are important to ensure the materiality of information and improve the readability of the circular. We think that maintaining the $50,000 threshold is appropriate. However, we believe that the continued use of a percentage of salary and bonus as threshold will create unfair distortions between companies, where companies that offer purely discretionary incentives will be advantaged and have less disclosure requirements, while such discretionary plans are, in our opinion, a less desirable means of compensating executives in a pay-for-performance environment.

Watson Wyatt recommends the use of a single threshold of $50,000 for the disclosure of perquisites and the removal of the reference to the executive's salary and bonus in the threshold definition. This would improve readability of the circular without any significant loss of information.

14. *Should we provide additional guidance on how to identify perquisites?*

No, we believe that most issuers report perquisites adequately.

15. *Will a total compensation number calculated as proposed provide investors with meaningful information about compensation?*

In general, we believe that having a column showing total compensation will improve the transparency to the investors. However, we believe that one issue which is not properly addressed by the proposed regulations is the blend of compensation opportunity (the potential value that is expected) and realized compensation (the value that is actually delivered) and the blend of time frames in the Summary Compensation Table. For example, the equity awards are shown on an annual opportunity value basis, while the non-equity payouts are shown on a realized cumulative basis.

Many Canadian companies have led the way in the past few years by providing separate tables showing total compensation focusing on "today's" value of compensation that is awarded to executives (which we generally refer to as "compensation opportunity"). These tables were commended for their clarity and tie to the actual compensation decisions made by Boards. We think that the Summary Compensation Table should be adjusted to reflect this best practice.

For non-annual non-equity compensation, we recommend requiring the disclosure of target payout value at the moment of grant, instead of actual amount paid upon payout. We also recommend reporting payouts under these plans in a separate table using the same methodology as for options and stock awards.

16. *Will the disclosure of the grant date fair value of stock and option awards, along with the disclosure provided in the summary compensation table, provide a complete picture of executive compensation?*

The grant date fair value is in line with the methodology generally used by Boards to assess compensation.

We believe that the regulations should clarify better how deferred share units are disclosed under item 4 (or if they should). For example, in the case of a deferral plan when portion of the bonus is deferred into "deferred share units (DSUs)"and where the company provides a match that vest over a certain period, it is not clear if we should include in the table the DSUs that are credited for the amount deferred, the vested match and unvested match.

We are also confused by the required disclosure of stock awards under column (g). We believe it would be more appropriate to disclose target payouts (or alternatively maximum payout). We believe that the proposed used of threshold or last fiscal year's performance will bring confusion and inconsistency year-over-year. Watson Wyatt recommends clarifying the treatment of deferred share units and the reporting of column (g) in the "Outstanding equity based table".

4. Equity and Plan-based awards

17. *Is the information a company will provide in the tables required by item 4 the most relevant information for investors? Do you agree with our decision to take a different approach to the SEC? Could material information be missed by this approach?*

We feel that factual information on the individual awards will be missing or difficult to assess and that reliance on narrative descriptions will reduce transparency. We think that the number of stock or units granted will not be transparently available to the investors, because it will be aggregated in the "Outstanding equity-based awards table" with prior grants. In addition, we believe that reference to "vested" should be clarified.

The Outstanding Equity-Based Awards table should be modified so that stock awards (column (f)) are also detailed on an award-by-award basis. We think that investors will better understand, together with the narrative description, the compensation element provided to the executives. We do not think that this will bog down the table, as most stock plans in Canada have a life of only three years.

5. Retirement plan benefits

18. *Should we require supplemental tabular disclosure of defined contribution pension plans or other deferred compensation plans? Is a breakdown of the contributions and earnings under these plans necessary to understand the complete compensation picture?*

Watson Wyatt believes it is important for shareholders to understand the value that an executive has available in vested deferred share units. Accordingly, we recommend requiring the separate disclosure of vested deferred share units.

6. Termination and change of control benefits

19. Should we require estimates of termination payments for all NEOs or just the CEO?

We believe providing estimates for all NEOs is appropriate especially in situations where the role is split between a chairman and CEO role and a president and COO role.

20. Will it be too difficult to provide estimates of potential payments under different termination scenarios? Should we only require an estimate for the largest potential payment to the particular NEO?

We think it is best practice for companies and Boards to know the value of payments upon termination scenarios and we therefore think that this new requirement is appropriate. We believe it is appropriate to show all scenarios, not just the largest potential payout. The danger of requiring only the largest potential payout is that this particular scenario may correspond to a highly improbable situation. We believe it is important for Board and investors to understand the potential payments under all possible scenarios.

We are concerned that narrative description of the payment may be confusing to investors. Actually more than half of the U.S. issuers have provided a tabular disclosure for similar requirements. Accordingly, the requirements should include a table for reporting termination payments under various scenarios to improve transparency to investors.

We are also concerned that that showing an all-inclusive payment value that includes already vested rights may be jumped on by the media which may have the undesired consequence of encouraging executives to reduce that amount by cashing in (or exercising) certain rights, which would be detrimental to the executive ownership mentality. We therefore propose reporting only on the additional payments that are actually triggered by the event and exclude payments that are already available or vested.

7. Director Compensation

21. Will expanded disclosure of director compensation provide useful information?

We believe that the proposed table will adequately inform investors. We believe that the mechanics of director compensation will be simplified by companies in the future, with less emphasis on per-meeting fees and more based on the role and responsibilities. We think investors focus should be on total compensation earned, the ties to performance and the mix between cash, shares, options and other vehicles.

8. Companies reporting in the United States

22. Do you agree that executive compensation disclosure should remain in the management information circular? Would moving it to another disclosure document provide a clearer link between pay and performance?

We have no comments to provide on this question.

23. *Are there elements of compensation disclosure that are not relevant to venture issuers and that they should not be required to provide? For example, should we allow venture issuers to disclose compensation for a smaller group of executives as the SEC has done?*

We have no comments to provide on this question.

24. *Are there other specific elements of the requirements that are not relevant for venture issuers?*

We have no comments to provide on this question.

25. *Would the prescription of a performance measurement tool provide useful information on the link between pay and performance?*

We are of the opinion that enforcing one methodology would be counterproductive and would have unintended consequences on plan designs. Watson Wyatt uses a number of different tools, which differ by industry and maturity/business cycle, with adjustments made to adapt to specific realities.

9. Transition and other amendments

26. *Do you think the suggested timeline will give companies enough time to implement these proposed disclosure requirements?*

Disclosure changes of this magnitude (especially the CD&A) will require organizations to prepare multiple draft versions to their Board of Directors for careful review. Compensation Committee's agendas for the end of the year are typically heavily loaded. Such major revisions would be better addressed during the third quarter, requiring companies to start drafting the disclosure in the summer. If final regulations were approved by July 31 and were generally aligned with the proposed regulations, then we think companies may have sufficient time to prepare the new material.

9. Additional Comments

Reporting Currency

The proposed disclosure requires that compensation be reported in the same currency as the financial reporting. We think that this is inadequate and it does not reflect the reality of issuers who have to provide globally competitive compensation. For example, many large Canadian organizations peg executive compensation on U.S. compensation benchmarks to reflect the market in which they are competing for talent. Many of these organizations pay their executives in U.S. currency in order to avoid undesirable impact of changes in the exchange rates. For the same reason, it is appropriate for these organizations to report executive compensation in US dollars, in order to avoid artificial changes from year to year that would only be a reflection of changes in exchange rates.

We recommend allowing issuers to report compensation in the currency of their choice (possibly limited to U.S. and Canadian dollars).

Exclusion due to foreign assignment

We believe that this exclusion should be clarified. It is not clear to us if amounts paid to offset the impact of higher Canadian taxes are to be considered in the determination of the NEOs because of the reference to "overseas locations". In addition, Watson Wyatt considers that the CSA should consider if any such amounts be reported in the Summary Compensation Table at all, as these do not relate to any advantage received by the executive. We suggest that a footnote specifying the additional amounts paid would provide more pertinent disclosure.

In the determination of the NEOs, we recommend allowing issuers to exclude any cash compensation that is paid in to compensate difference in cost of living (including taxes) between the executive's base country and the country where the executive works.

In the Summary Compensation Table, we also recommend allowing issuers to exclude any cash compensation that is paid in to compensate the difference in cost of living (including taxes) between the executive's base country and the country that the executive works.

Restatement of amounts

Guidance should be given on how to handle the restatement of amounts for prior years (e.g. 2005 and 2006), which may be required due to change in the regulations.

CD&A Exhaustiveness

The regulations should require disclosure of the absence of policies which are "deemed material" by the regulations. This would provide better transparency to investors. For example, if a company does not have a policy on compensation clawbacks, this fact should be disclosed.